A missed trick?

Ask any property professional what they wanted for Christmas in 2017 and I can pretty much guarantee a change in Stamp Duty Land Tax (SDLT) legislation would have been high on the list. In the recent budget, the Chancellor had the chance to breathe life into the UK property market but missed an easy trick. The abolition of SDLT for first-time buyers up to £300,000 is good news but it's only a very small start in a market where investor sentiment has been repeatedly knocked by continuing uncertainty regarding Brexit, alongside a litany of tax changes and increased mortgage regulation.

The capital's diverse markets

Quoting generic statistics about London can often be misleading - London is a myriad of diverse residential property markets, each driven by its own supply/demand dynamics and its own demographic of buyers and investors. What is clear, however, is that across all markets the volume of transactions has fallen significantly on pre-2014 levels (perhaps by up to 40%) and values are down (anywhere from 5% to 30% depending on area and property specifics). That said, there is very little distress in the market to date, save perhaps in parts of the new build sector or where sales are forced by one of the "three D's" – debt, divorce or death. Interest rates remain at record lows and there is no sign of an imminent recession, albeit the UK's recent lacklustre growth has taken us from the top of the G7 to the bottom. Most sellers remain discretionary - something for prospective buyers to beware - and prices for the best properties are holding firm, albeit not perhaps at the level of pre-2014 expectations.

Looking ahead, the political headwinds remain considerable. As touched on above, there seems to be little appetite in government for SDLT reform, meanwhile Brexit negotiations are opaque at best with a soft exit seeming less and less likely. If our exit is bumpy and the economy bears the brunt, then Jeremy Corbyn could well be the beneficiary at the next general election. Whatever your politics, it is hard to deny that a Corbyn administration is likely to see further direct intervention in the property markets (e.g. rent controls) and the introduction of some form of wealth tax.

London is robust

Before all of us involved in property rush off to drown our sorrows, however, the reality is that long-term prospects for the capital's residential market remain as they have for the past 20 odd years. London is one of the top two global cities (the other being New York), it is a global financial centre (with no parallel in Europe, save perhaps for Paris) and it is the most important tech city outside the US. In addition, it has a relatively young demographic and enduring appeal based on its culture, tourism, educational offering, labour laws, language, skills and security (notwithstanding recent horrors). Its population is due to grow by 13% over the coming decade and there is already a housing shortage. Whilst inevitably London will lose some of its jobs in the financial sector to other European cities, these are likely to be supporting roles in the main, perhaps picked up by smaller cities such as Dublin, Amsterdam and Luxembourg, where employees will work in partnership with London. As for affordability, London doesn't even make the top 10 least affordable cities globally; that said, we need to watch this so as not to deter the younger generation from living in this great city.

What we will see is a return to the long-term investor looking for value creation over decades and this may explain why so many of the big landed estates are investing now in their portfolios. The past 30 years have seen generic growth at 5.7% per annum on average and this may become the new norm rather than the heady 10% year-on-year of recent times.

Off-market action

At RFR we expect transactional volumes to remain low throughout the Brexit process with values staying flat in the main, perhaps with some fluctuations if the Brexit process takes any unexpected turns. Thereafter it is very hard to make predictions with any conviction – we note Savills foresee 21% growth over the next 5 years (all post 2019) with Strutt & Parker suggesting a more modest 16% over the same period (again all post 2019).

In terms of trends, substantially more property will be sold off-market as buyers try to avoid their properties becoming stale and the new build sector will continue to suffer as it faces the perfect storm of increased stamp duty (for those buying over £937,500 or additional properties), falling prices and rising construction costs. Buyers will remain discerning, and rightly so, but also willing to pay for the right property, although negotiations will take longer.

For RFR's Search & Acquisitions team the current situation is a mixed blessing – whilst transactional volumes have been lower, for those buyers we are advising, the opportunity to unearth exceptional properties has rarely been better and our rental search offering has enjoyed a significant boost from those clients who anticipate a shorter stay in London. Negotiations can be time-consuming and tortuous (particularly with discretionary sellers or for the crème de la crème of rental properties) but then it wouldn't be any fun if it was too easy!

About the author

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Charlie is a Director in the Search & Acquisitions team having joined RFR from Strutt & Parker where he was a Partner in one of their highly respected Prime Central London offices.

With a servant's heart and an enviable network of contacts across the property world, Charlie is highly liked and respected by RFR's clients as well as his peers.

Prior to entering the property industry 7 years ago, Charlie ran the MCC's Sponsorship team at Lord's Cricket Ground where he counted Deutsche Bank, Investec, NatWest and JP Morgan as corporate clients. He is a keen cricketer, ardent Spurs fan and committed supporter of the Irish Rugby team.

RFR is an award-winning property advisory firm, looking after clients across all aspects of their residential property in London.

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